

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL

266

POTENTIAL FOR SELF-INSURANCE OF
STATE'S MOTOR VEHICLE LIABILITY

AUGUST 1975

TO THE
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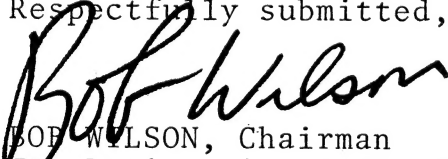
September 2, 1975

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Transmitted herewith is the report of the Office of the
Auditor General pertaining to the request from Assemblyman
McAlister for information on potential savings to the state
if motor vehicle liability were totally self-insured.

Respectfully submitted,


BOB WILSON, Chairman
Jt. Legislative Audit Committee



STATE OF CALIFORNIA

GLEN H. (JACK) MERRITT, C.P.A.
CHIEF DEPUTY AUDITOR GENERAL

Office of the
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PHILLIPS BAKER, C.P.A.
GERALD A. HAWES
JOHN H. McCONNELL, C.P.A.
DEPUTIES

August 26, 1975

Honorable Bob Wilson, Chairman
Joint Legislative Audit Committee
Room 4126, State Capitol
Sacramento, California 95814

Dear Mr. Chairman:

In response to Assemblyman McAlister's request for information on potential savings to the state if motor vehicle liability were totally self-insured, we have obtained premiums and loss data for the nine-year period ended June 30, 1974.

The state has historically purchased its motor vehicle insurance coverage in layers. The basic layer covers losses up to \$50,000 per occurrence. The first excess layer of insurance covers losses from \$50,000 per accident to \$250,000 per person, or \$500,000 per accident for bodily injury and \$100,000 for property damage. The second excess layer of insurance provides coverage above the amounts for the first excess layer to \$2,000,000 in total. For losses from \$2,000,000 to \$50,000,000, the state master excess torts policy includes coverage for motor vehicle losses.

For the nine years ended June 30, 1974, premiums for the basic layer have exceeded related losses by \$1,830,000. In contrast, for excess coverage over \$50,000, the losses have exceeded premiums paid to the insurance companies by \$1,198,000. The following table shows the premiums and losses for each layer of insurance for the nine years ended June 30, 1974. The amount of losses for 1974-75 is not yet available.

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	<u>Premiums</u>	<u>Losses</u>	<u>Excess of Premiums Over Losses</u>
Basic layer	\$12,646,000	\$10,816,000	\$ 1,830,000
First excess layer	\$ 1,556,000	\$ 1,781,000	\$ (225,000)
Second excess layer	<u>181,000</u>	<u>1,154,000</u>	<u>(973,000)</u>
Subtotal excess layers	\$ 1,737,000	\$ 2,935,000	\$ (1,198,000)
Totals	<u>\$14,383,000</u>	<u>\$13,751,000</u>	\$ <u>632,000</u>

NOTE: Amounts are rounded to nearest \$1,000 and are based on information obtained from Department of General Services, Insurance Office.

The vast majority of accidents involving state vehicles result in loss payments of less than \$50,000. Accidents resulting in losses of over \$50,000 occur very infrequently, and are difficult to predict. For example, losses over \$50,000 accounted for \$2,935,000 of the total losses for the last nine years. But two claims represent 57 percent of this \$2,935,000. One case resulted in a loss of \$504,000, of which excess insurance covered \$454,000 and another case resulted in a \$1,275,000 loss, of which \$1,225,000 was covered by excess insurance. One insurance company declined to continue covering the state's excess automobile liability insurance because of their previous losses.

We made limited surveys of motor vehicle liability insurance coverage for 15 selected large businesses, five of the largest cities and five of the largest counties in California, and found the following:

- Seven of the corporations are self-insured for the lower layer of their liability coverage and purchase excess insurance for higher limits.
- Three of the cities are self-insured for the lower layer of their liability.
- Three of the counties are self-insured for the lower layer of their liability and purchase excess insurance for higher limits.

The historical data on California's experience for motor vehicle liability losses in excess of \$50,000 indicates that such losses should not be self-insured, since the amount of such losses exceeded

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the insurance premiums for the nine years ended June 30, 1974. However, in our judgment, the Department of General Services should continue to monitor the premium costs and the losses over \$50,000 on the excess insurance coverage.

Subsequent to our December 1974 report on the procurement of insurance, the Department of General Services began a feasibility study of self-insuring for motor vehicle liability. The Insurance Office informed us that this study should be completed in September 1975.

Sincerely,

A handwritten signature in dark ink, appearing to read "Glen H. Merritt", with a long horizontal flourish extending to the right.

Glen H. Merritt
Chief Deputy Auditor General

GHM:DCT:lc

Staff: John McConnell
Dore C. Tanner